

Message Text

CONFIDENTIAL

PAGE 01 OECD P 03086 01 OF 02 311854Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----311907Z 126346 /42
R 311903Z JAN 77
FM USMISSION OECD PARIS
TO SECSTATE WASH DC 5130

C O N F I D E N T I A L SECTION 01 OF 02 OECD PARIS 03086

EXDIS

PASS E FOR COOPER, EUR FOR HARTMAN, TREASURY FOR
BERGSTEN, NSC FOR HORMATZ

E.O. 11652: GDS
TAGS: OECD, EFIN
SUBJECT: OECD SECRETARIAT ARGUMENTS IN FAVOR OF US
RATIFICATION OF THE FINANCIAL SUPPORT FUND (FSF)

1. IN RESPONSE TO REQUEST BY UNDER SECRETARY DESIGNATE
COOPER, THROUGH CHARGE KATZ, OECD SECRETARIAT HAS
PRODUCED SUMMARY OF ARGUMENTS USED BY SECRETARIAT
MEMBERS IN ADVANCING CASE FOR US RATIFICATION OF OECD
FINANCIAL SUPPORT FUND. THE FOLLOWING PARAGRAPHS DRAW
ON SECRETARIAT'S NOTES OF THE MAIN POINTS MADE BY THEM
ON THE FSF DURING INFORMAL DINNER MEETING HOSTED BY
VAN LENNEP JANUARY 28.

2. THERE ARE STRONG PRACTICAL REASONS FOR GOING AHEAD
WITH THE FSF. NOT TO RATIFY THE FUND WOULD BE TO
THROW AWAY A SUBSTANTIAL AMOUNT OF POTENTIAL OFFICIAL
FINANCING ALREADY NEGOTIATED, LEGISLATED, AND RATIFIED.
JUST TO CONSIDER THE CONTRIBUTIONS OF THE STRONGEST
COUNTRIES OUTSIDE OF THE UNITED STATES, THE QUOTAS OF
GERMANY, JAPAN, SWITZERLAND AND THE NETHERLANDS TOTAL
\$6.7 BILLION.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OECD P 03086 01 OF 02 311854Z

3. THUS, A RATIFICATION REQUEST TO THE U.S.
CONGRESS COULD BE PRESENTED NOT SIMPLY AS RUBBER
STAMPING AN OLD PROPOSAL, BUT AS A NEW QUICKLY
EFFECTIVE INITIATIVE USING SOMETHING ALREADY ON HAND
TO MEET A POTENTIALLY SERIOUS SITUATION AND TO
DEMONSTRATE CONCERN FOR FRIENDS AND ALLIES.

4. THERE MIGHT WELL BE A GOOD CASE FOR TRYING TO BRING IN MONEY FROM THE SAUDIS AND/OR FOR CREATING A CREDITOR'S CLUB WITH WIDER MEMBERSHIP TO BACK UP THE IMF. ONE SHOULD HOWEVER NOT UNDERESTIMATE THE DIFFICULTIES AND THE LENGTH OF TIME THAT IT WOULD TAKE FIRST TO NEGOTIATE AND THEN TO RATIFY AN AGREEMENT ALONG THESE LINES. THE FSF IS THE ONLY THING WHICH IS LIKELY TO BE AVAILABLE IN TIME TO HELP DURING THE COMING DIFFICULT 12 MONTHS IN EUROPE.

5. RATIFICATION OF THE FSF WOULD NOT BE REGARDED AS HOSTILE BY OPEC. ON THE CONTRARY, IT REALLY REPRESENTS A WAY OF SHOWING THAT THE CONSUMERS ARE DOING THEIR PART TO SHORE UP THEIR ECONOMIC AND FINANCIAL SITUATION AND WOULD PROVIDE A GOOD BACKGROUND FOR A NEW APPROACH TO THE OPEC ON FINANCIAL QUESTIONS.

6. THE CONDITIONS FOR FSF LOANS WOULD NORMALLY BE NEGOTIATED BY THE IMF. THUS, FSF LOANS WOULD BACK UP THE IMF IN A WAY SIMILAR TO THE RECENT BASLE ARRANGEMENTS FOR THE CONVERSION OF STERLING BALANCES. THIS WOULD BE VALUABLE HELP, ESPECIALLY IN CASES OF COUNTRIES WHOSE IMF QUOTAS ARE SMALL IN RELATION TO THEIR POTENTIAL NEEDS (E.G., SPAIN AND PORTUGAL).

7. FOLLOWING THIS LINE OF ARGUMENT, THE FSF COULD EASE IMF LIQUIDITY BY FINANCING "SUPER TRANCHE" DRAWINGS IN CERTAIN CASES. IT IS ALSO TRUE THAT THE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 OECD P 03086 01 OF 02 311854Z

FSF AGREEMENT DOES NOT SPECIFICALLY REQUIRE THAT A BORROWER DRAW ON THE IMF BEFORE APPLYING TO THE FSF. ACCORDINGLY, IT IS TECHNICALLY POSSIBLE FOR THE IMF TO DETERMINE CONDITIONALITY AND THE FSF TO PROVIDE THE FINANCE. WITTEVEEN IS ON RECORD AS WELCOMING THE FSF AS "A VERY REASONABLE BALANCE BETWEEN TWO IMPORTANT ASPECTS: ONE BEING THE ADDITIONAL PROTECTION THAT THE AGREEMENT WOULD GIVE TO INDUSTRIAL COUNTRIES...THE OTHER BEING THE NEED TO RESPECT THE ROLE OF OTHER FINANCIAL CHANNELS OF WHICH, AS THE AGREEMENT PUT IT, 'THE FULLEST APPROPRIATE USE' WOULD HAVE BEEN MADE."

8. ON THE OTHER HAND, THERE IS THE FLEXIBILITY THAT IN CIRCUMSTANCES IN WHICH FOR POLITICAL REASONS A LOAN WOULD BE UNSUITABLE FOR THE IMF, IT COULD BE MADE THROUGH

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 OECD P 03086 02 OF 02 311904Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----311919Z 126544 /40

R 311903Z JAN 77
FM USMISSION OECD PARIS
TO SECSTATE WASH DC 5131

C O N F I D E N T I A L SECTION 02 OF 02 OECD PARIS 03086

EXDIS

THE FSF.

9. ONE POSSIBLE USE FOR THE FSF MIGHT BE IN CONNECTION WITH ARRANGEMENTS BEING DISCUSSED TO SUPPORT PORTUGAL. ESPECIALLY SINCE THIS INCLUDES CONSOLIDATION OF SHORT-TERM FINANCING, THIS COULD BE AN APPROPRIATE CASE FOR THE FSF TO BORROW IN THE MARKET BACKED BY A JOINT GUARANTEE OF THE FSF.

10. TO THE EXTENT THAT BORROWING BY USING THE JOINT GUARANTEE METHOD WERE USED, THIS WOULD TEND TO ECONOMIZE THE COMMITMENT OF QUOTAS OF THE STRONG CREDITORS, AS AGAINST A CASE IN WHICH THE DIRECT LOAN METHOD WOULD BE USED. MUCH OBVIOUSLY DEPENDS ON THE JUDGMENTS OF THE MARKET, BUT PRESUMABLY A JOINT BORROWING WOULD BE BACKED BY A WIDER SPECTRUM OF COUNTRY QUOTAS IN THE FSF THAN A DIRECT FINANCING (THAT IS, REASONABLY CREDITWORTHY COUNTRIES COULD EFFECTIVELY PARTICIPATE IN THE JOINT GUARANTEE, WHILE THEY MIGHT FEEL COMPELLED TO OPT OUT OF PARTICIPATION IN A DIRECT LOAN.)

11. ACCORDING TO AVAILABLE INFORMATION, MOST COUNTRIES WHICH HAVE RATIFIED THE FSF THUS FAR HAVE FOUND A MEANS OF AVOIDING THE NEED TO APPROPRIATE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OECD P 03086 02 OF 02 311904Z

FUNDS IN THEIR BUDGETS EITHER UPON RATIFICATION OR

UPON SUBSEQUENT DRAWING ON THE FSF. (AS PROMISED TO ASSISTANT SECRETARY-DESIGNATE BERGSTEN, SECRETARIAT IS NOW GATHERING MORE PRECISE DETAILS ON HIS POINT; THE RESULTS WILL BE FORWARDED WHEN AVAILABLE.)

12. THE RATIFICATION OF THE FSF SHOULD BE EASIER BECAUSE IT IS NOT INTENDED AS A PERMANENT INSTITUTION. ITS LENDING AUTHORITY WOULD EXPIRE AFTER TWO YEARS. THIS AUTHORITY COULD BE EXTENDED, BUT THE IDEA HERE IS THAT THE ONUS OF PROOF SHOULD BE ON THE CONTINUED NEED FOR THE FSF, RATHER THAN THE OTHER WAY ROUND.
KATZ

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, TREATY RATIFICATION, FINANCIAL CONTRIBUTIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 31-Jan-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977OECDP03086
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770034-0293
Format: TEL
From: OECD PARIS
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977012/aaaaabut.tel
Line Count: 183
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: cd609ed1-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3507784
Secure: OPEN
Status: NATIVE
Subject: OECD SECRETARIAT ARGUMENTS IN FAVOR OF US RATIFICATION OF THE FINANCIAL SUPPORT FUND (FSF)
TAGS: EFIN, US, OECD
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/cd609ed1-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009